1 Description

This course will focus on two fundamental issues in monetary economics: price level determination and the real effects of nominal disturbances. Attention will be given both to theoretical models and empirical evidence.

2 Evaluation

There will be weekly problem sets, which will be graded for completion. Students may work together, but must turn in individual solutions. There will also be a final exam. Problem sets and class participation will make up 25% of the final grade, and the exam will make up the remaining 75%.

3 Readings

The main reference for the course is: Woodford, Michael (2003) *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton: Princeton University Press, referred to as IP below. All required readings are marked with an asterisk. The rest are included as useful references for further study. Note: these readings are preliminary and subject to revision.
3.1 Money and Inflation

- *IP: Chapter 2, Section 3: “Price-Level Determination with Monetary Frictions.”
- Woodford, Michael (1986) “Stationary Sunspot Equilibria: The Case of Small Fluctuations around a Deterministic Steady State,” Mimeo, University of Chicago and New York University

3.2 Interest-Rate Rules

- *IP: Chapter 2, Section 1, “Price-Level Determination in a Cashless Economy,” Section 2 “Alternative Interest-Rate Rules,” and Section 4 “Self-Fulfilling Inflations and Deflations.”
3.3 Fiscal Theory of the Price Level


3.4 Real Effects of Monetary Policy

• IP: Chapter 3, Section 1, “A Basic Sticky-Price Model,” and Section 2 “Inflation Dynamics with Staggered Price Setting.”


3.5 Imperfect Knowledge

- *IP: Chapter 3, Section 3, “Delayed Effects of Nominal Disturbances on Inflation.”

3.6 Unconventional Monetary Policy


